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DIRECTORATE OF INTELLIGENCE

29 OCT 1985

MEMORANDUM FOR: See Distribution List

FROM :
Acting Chief, Economics Division, OGI

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SUBJECT : Cuba's Use of Trade in Latin America

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Attached is a typescript produced by the Economics Division concerning Cuban trade in Latin America. It explores Cuba's use of trade to gain influence and new markets in Latin America. If you have any questions, please contact our International Trade Branch

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Attachment:

Cuba: New Trade Ties With Latin America
GI M 85-10275, October 1985

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SUBJECT: Cuba's Use of Trade in Latin America [REDACTED]

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OGI/ECD [REDACTED] (28Oct85)

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MEMORANDUM

CUBA: SEEKING NEW TRADE TIES WITH LATIN AMERICA [REDACTED]

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Cuba has recently been successful in renewing and increasing trade relations with several Latin American neighbors. We believe that Castro is trying to use trade to build Cuba's regional influence, renew diplomatic ties with some of its neighbors, and open the doors to new markets in Latin America. Havana is unlikely to achieve a significant trading presence in the region, however, because of the need to reduce imports to save scarce hard currency, a limited export menu of mineral and agricultural products, and commitments to supply CEMA with a large proportion of the country's exports. [REDACTED]

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Cuba's Motives

In our view, President Castro's attempts to renew or increase commercial ties in Latin America are motivated by a desire to reintegrate Cuba into regional political affairs as well as to alleviate domestic economic problems. Castro probably views the changes toward civilian and democratic governments in Latin America as an opportunity to reduce Cuba's regional isolation and develop a reputation as a responsible neighbor. Havana likely believes that an improved image would reduce the concerns of its neighbors that upgraded ties might jeopardize their relations with the United States. Concurrent with its

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[redacted]

efforts to strengthen its official political and commercial influence in the region, Havana is also expanding front company operations in the area to gain access to hard currency, acquire technology, as well as to provide cover and funding for intelligence activities. [redacted]

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Recent Developments

Renewing Ties

Uruguay and Cuba signed a bilateral trade agreement in July, after Uruguayan President Sanguinetti repealed a 21 year-old decree prohibiting negotiations with Cuba. Uruguay and Cuba resumed diplomatic relations on 17 October, according to press reports. In addition, Cuba reportedly received a US \$5 million line of credit, most likely from the Spanish External Bank [redacted]

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These renewed trade ties, however, probably will not produce an immediate increase in bilateral trade. Cuba is likely more interested in showing Uruguay that trade is possible rather than actually conducting trade. [redacted]

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[redacted] To date,

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only one export contract with Havana has been arranged; Montevideo's exports are competing with goods which Cuba imports from the USSR and

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[REDACTED]

China. Cuba is reportedly interested in importing Uruguayan electrical and leather goods as well as chemical products. Uruguayan businessmen want to import tobacco products, rum, and shellfish from Cuba. [REDACTED]

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[REDACTED]

Brazil does not have formal diplomatic relations with Cuba and conducts only minimal trade on an unofficial basis. [REDACTED]

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[REDACTED] President Sarney is expected to agree to resume diplomatic ties with Cuba, but at an unknown date, presumably a

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[redacted]

political move to gain favor with the left in Brazil. [redacted]

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[redacted]

[redacted] Havana's exports are probably not in high demand because of Brazil's position as a world sugar producer. [redacted]

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Increasing Existing Trade

Argentina's exports to Cuba rose by nearly three-quarters between 1983 and 1984 to US \$165 million as a result of a US\$200 million annual line of credit extended by Argentina to Cuba for 1984-1986. Cuban state agencies recently purchased Argentine telecommunications and railway equipment, as well as medical supplies [redacted]

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On the other side of the ledger, Cuba's exports to Argentina are negligible because of the lack of markets for Cuban goods, in part because of Argentina's ability to produce and export sugar -- Havana's principal export. [redacted]

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Mexico and Cuba are trying to expand bilateral trade and have set a short-term annual trade goal of US \$300 million in goods and services, according to the US Embassy in Mexico City. Even though Cuba's imports from Mexico have been on the rise, its exports to Mexico have been declining since 1980, restricted by Havana's limited variety of exports, Mexico's growing self-sufficiency as a sugar producer, and a modest cooling in political relations, consistent with President de la Madrid's

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generally moderate foreign policy and desire to maintain friendly relations with the United States. Based on this trend, together with Havana and Mexico City's need to restrain import spending, we believe they are unlikely to achieve their ambitious goal of increasing bilateral trade 200 percent over the 1984 level. [REDACTED]

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Mexico and Cuba have taken some steps to strengthen commercial ties. In order to boost trade, Havana and Mexico City recently agreed to grant each other Most Favored Nation status by lowering respective import duties by 25 to 75 percent, according to press reports. Mexico and Cuba also opened lines of credit amounting to US \$150 and \$20 million, respectively, to finance their bilateral trade. Agroindustrial, sugar, metal-mechanical, and pharmaceutical trade agreements have recently been signed. [REDACTED]

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Ecuador's President Febres-Cordero signed a bilateral trade agreement and discussed the potential for trade in agricultural goods during his April visit to Cuba, according to press reports. Although Febres-Cordero tried to play down the significance of the trip, Castro's image in Latin America probably was improved by the visit. Ecuador's Ambassador at Large, who led a business delegation to Cuba in March, signed a reciprocal line of credit agreement, amounting to an initial US \$3.6 million. [REDACTED]

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*Cuba's exports to Mexico fell by over 95 percent to US \$12 million between 1980 and 1984 and continued to decline in the first half of 1985. Havana's imports from Mexico grew by over two and one-half times between 1980 and 1984 to US \$82 million and are still rising. [REDACTED]

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[REDACTED]

Bolivia and Cuba created a commission to increase bilateral trade in May [REDACTED]. Currently, bilateral trade is minimal, including Cuban pharmaceutical products and Bolivian tin. Cuba is promoting its reputation as a responsible neighbor by assisting Bolivia, one of Latin America's poorer countries, in the areas of technical training, health, mining, and agro-industry. Bolivia established an embassy at the charge level in Havana in the final weeks of the leftist Siles administration. New President Paz Estenssoro, however, distrusts the Castro regime and probably will rebuff any overtures to further normalize relations with Cuba. [REDACTED]

Role of Cuban Front Companies in Latin American Trade

In addition to normal commercial relations, Havana has operated an extensive network of commercial front companies in the region since the 1970s. We believe that some 45 to 50 of these firms are presently headquartered in Latin America. Most are located in Panama and are controlled by Corporacion Cimex S.A., a holding company based in Havana

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[redacted]

and Panama City. These companies originally were intended to service the Cuban fishing fleet and to facilitate trade. In the 1970s their role was expanded to help satisfy Cuban demand for Western consumer goods and to help Havana evade the US trade embargo. So far in this decade, they have increased the scope of their activities to include acquiring foreign technology to assist in modernizing the Cuban economy. They may also be providing cover and funding for intelligence activities [redacted]

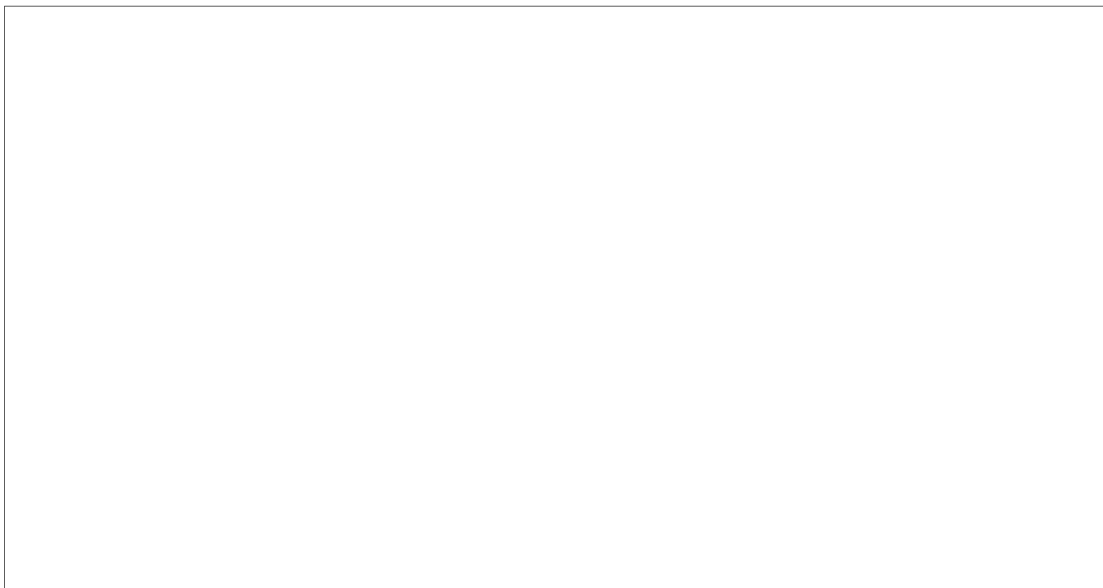
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[redacted] Cuba has increased its front company business in Latin America during the past year:

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- o A joint Argentine-Cuban international trade company was formed early this year, according to a Cuban press report.

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Havana appears to be planning additional front company investments in Latin America. [REDACTED]

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[REDACTED] If Castro's diplomatic efforts in Latin

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America prove to be successful, Cuba will likely establish additional front companies in the area to gain access to additional sources of hard currency and technology needed to ease domestic economic pressures. [REDACTED]

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Outlook and Implications for the United States

Although Cuba has been successful in improving trade ties with several Latin American countries, we believe that trade levels are not likely to increase substantially in the near future. Havana's ability to trade is constrained by the few commodities it has to sell -- sugar, minerals, and citrus products -- most of which are obligated for Communist countries. At the same time, Havana would presumably find it difficult to reciprocate by importing, lacking adequate hard currency reserves. [REDACTED]

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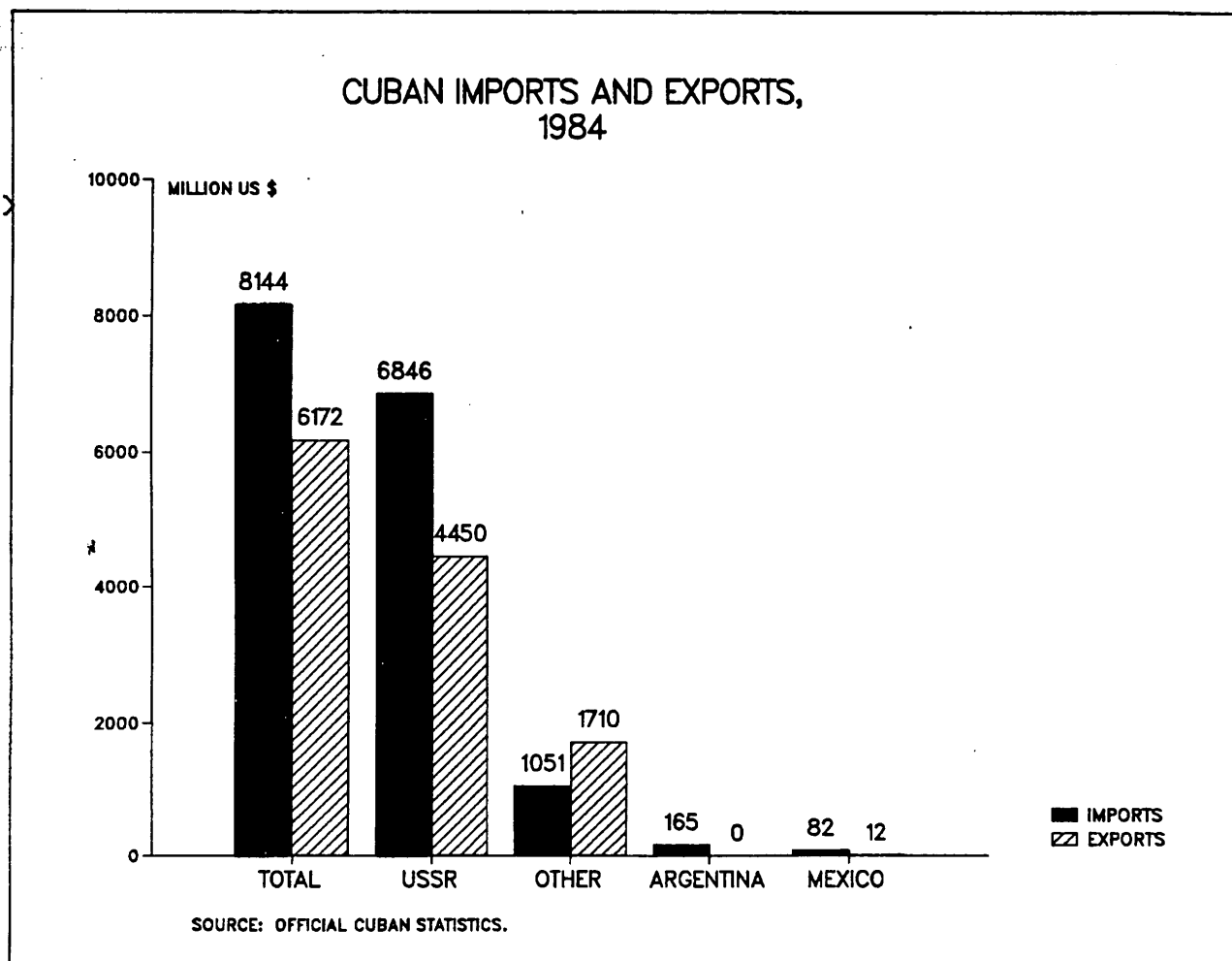
Despite the limitations Cuba faces in becoming a major Latin American trader, Castro may believe that it is important to establish a presence in these Latin American nations. This presence will likely be used as a base to lobby for renewal of diplomatic relations or to exert influence in the future. If these efforts to establish and/or improve relations are successful, Cuba also probably will expand its use of front companies. [REDACTED]

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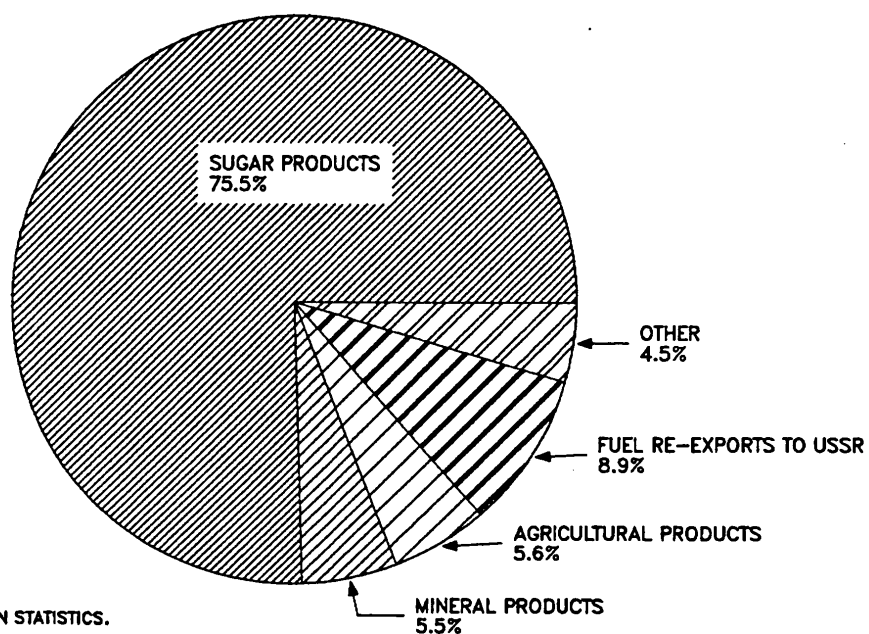
We believe that Castro's efforts to increase ties with its Latin American neighbors will not change their attitudes towards Havana. Most Latin American leaders have been and most likely will continue to remain suspicious of Cuban interference in domestic affairs and support of insurgents. Cuba's neighbors presumably see the benefit of trading with Havana in the form of potential hard currency earnings and are being pushed by leftist interests to reestablish or increase ties with Cuba. Many of these Latin American governments also want to assert their independence from the United States by improving relations with Havana, even though they may not agree with Castro on an ideological basis. We believe, however, that these countries would be unwilling to risk damaging relations with the United States in favor of excessively close ties, commercial or diplomatic, with Cuba. [REDACTED]

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CUBAN EXPORTS BY COMMODITY GROUP, 1984



SOURCE: OFFICIAL CUBAN STATISTICS.